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April 8, 2008

PARTIES OF RECORD:

RE: Case No. 2007-00276

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT
CLAUSE OF KENTUCKY POWER COMPANY FROM NOVEMBER 1, 2006 TO
APRIL 30, 2007

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to Daryl Newby at (502) 564-3940, extension 253.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephanie Stumbo".

Stephanie Stumbo
Executive Director

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File -
Case No. 2007-00276

FROM: Daryl Newby, Division of Financial Analysis

DATE: April 8, 2008

SUBJECT: Informal Conference

An informal conference in Case No. 2007-00276 was held April 4, 2008 at the Commission's offices. The purpose of the conference was to discuss Kentucky Power Company's ("Kentucky Power") Fuel Adjustment Clause ("FAC") base rate roll-in which occurred as a result of the Commission's Order in Case No. 2006-00507¹, Kentucky Power's recent 2-year FAC review case. The Attorney General ("AG") participated in the conference by telephone. A copy of the conference attendance list is attached hereto.

In January 2008, Kentucky Power changed the base fuel rate used in its FAC calculation from \$.01651 to \$.02124, which was approved as its new base fuel rate in the 2-year FAC review case. Kentucky Power stated that it failed to recognize the effect of the inherent 2-month lag in the recovery of fuel costs and that, as a result, it under-recovered fuel costs in January and February 2008. Kentucky Power provided handouts (which were provided to the AG by e-mail) that support its position.

Kentucky Power will seek to recover the \$ \$5,715,451 shortfall in revenue and asked for Staff's advice on the proper way in which to proceed. Kentucky Power also discussed its plans for avoiding a similar result in future FAC base-rate roll-ins.

The conference was adjourned with the understanding that Staff would be issuing a memorandum summarizing the conference.

Attachment

¹ Case No. 2006-00507, An Examination of the Application of the Fuel Adjustment Clause of American Electric Power Company From November 1, 2004 To October 31, 2006, Order dated December 19, 2007.

